Postal Regulatory Commission
Submitted 10/26/2020 9:50:47 AM
Filing ID: 114933
Accepted 10/26/2020

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Periodic Reporting
(Proposal Six)

Docket No. RM2020-13

CHAIRMAN'S INFORMATION REQUEST NO. 2 AND NOTICE OF FILING UNDER SEAL

(Issued October 26, 2020)

To clarify the Postal Service's petition to consider proposed changes in analytical principles, filed September 15, 2020,[1] and the responses to Chairman's Information Request No. 1, filed October 14, 2020,[2] the Postal Service is requested to provide written responses to the following questions. The responses should be provided as soon as they are developed, but no later than November 5, 2020.

1. Figures 1 through 12 of the Variability Report contain references to the worksheets in the Library Reference USPS-RM2020-13/1 that were used to perform the underlying calculations. Variability Report at 10-26. Considering that the referenced spreadsheets contain the hard-coded data, please provide references or links to the primary data sources, such as worksheets filed in the library references within the Annual Compliance Review or other dockets.

[1] Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Six), September 15, 2020 (Petition); *see* A. Thomas Bozzo & Tim Huegerich, Analysis of Labor Variability for Automated Letter and Flat Sorting, Christensen Associates, September 15, 2020 (Variability Report).

[2] Responses of the United States Postal Service to Questions 1-11 of Chairman's Information Request No. 1, October 14, 2020 (Response to CHIR No. 1). Library Reference USPS-RM2020-13/2 was filed with the Response to CHIR No. 1. Notice of the United States Postal Service of Filing of USPS-RM2020-13-2, October 14, 2020.

2. The Variability Report states that "[f]or the extended models with lags [presented in equations (4) and (5)],…the [total pieces fed (TPF) elasticit[ies] (variabilities) are calculated as] the sum of the [current and two lagged TPF] coefficients b_1, b_2, and b_3," respectively. Variability Report at 21. Please explain why the elasticities were calculated as described above. With your response, please include the detailed underlying mathematical calculations and provide references to the relevant academic or research literature that discuss the estimation of elasticity in the presence of lagged variables.

3. Please refer to the Response to CHIR No. 1 where the Postal Service states: "explicit network variables such as delivery points served by plants exhibit high degrees of multicollinearity with facility fixed effects[.]"[3] Please also refer to the cited above testimony, which stated: "[t]he result that the inclusion of the site dummy variables dramatically inflates the standard errors of the deliveries elasticities is classically symptomatic of near-multicollinearity between possible deliveries and the fixed effects.… Whether the model specifications can be modified to quantify the effects of the network on mail processing labor cost with low standard errors is a matter for future research." USPS-T-14 at 70. Please discuss whether in the analysis underlying Proposal Six, the Postal Service investigated how model specifications and greater data availability would alleviate the multicollinearity issues identified in Docket No. R2001-1. If applicable, please provide the results of such investigations (including, but not limited to, program, log, and output files).

[3] Response to CHIR No. 1, question 2.c. (citing Docket No. R2001-1, Direct Testimony of A. Thomas Bozzo on Behalf of the United States Postal Service, September 24, 2001, at 69-70 (USPS-T-14)).

4. Please refer to regression equations (4) and (5) on page 21 of the Variability Report. Considering that the referenced extended regression models contain the current and two lagged TPF variables, please discuss whether the Postal Service performed any analysis of multicollinearity issues that might be caused by the inclusion of lagged explanatory variables into the referenced regression models. If applicable, please provide the results of such analysis (including, but not limited to, program, log, and output files).

5. Please refer to Docket No. ACR2019, Library Reference USPS-FY19-23, December 29, 2017, Excel file "YRscrub2019.xlsx," tab "Table," cells C13:C18, C25:C48.

   a. Please describe the differences between all of the various types of Automated Flats Sorting Machine (AFSM) 100 operations (e.g., AFSM 100 Out Primary, AFSM 100 Out Secondary) and delivery bar code sorter (DBCS) operations (e.g., Out BCS Primary, Out BCS Secondary).

   b. Please confirm that when aggregating the TPF data for the purposes of econometric analysis in Proposal Six, the Postal Service did not differentiate between various types of AFSM 100 operations and/or DBCS operations discussed in question 5.a.

   c. If question 5.b. is confirmed, please explain why the differences between various types of AFSM 100 and/or DBCS operations were not considered.

   d. If question 5.b. is not confirmed, please describe in detail how the Postal Service accounted for differences in TPF for various types of AFSM 100 operations and/or DBCS operations.

   e. Please discuss whether variabilities for workhours if estimated for various types of AFSM 100 operations and/or DBCS operations would be different from the variabilities currently estimated for AFSM 100 and DBCS operations in Proposal Six. Please provide the results of any analysis that supports the conclusion.

f. Please discuss whether the Postal Service considered including any control variables in the workhours econometric equations for AFSM 100 and DBCS operations and, if so, explain why these variables were rejected. If applicable, please provide program, log, and output files that illustrate the approach pursued and the results received.

6. In the Petition, the Postal Service states that the variabilities would be re-estimated annually "using the most recent four fiscal years' data." Petition, Proposal Six at 5. In the Response to CHIR No. 1, the Postal Service opines on the potential impacts of the COVID-19 pandemic on the Postal Service: "[I]t may be reasonable to expect an extended period of adjustment of workhours to letter and flat distribution workloads, similar to what was observed over the Great Recession." Response to CHIR No. 1, question 11.a.

   a. Please discuss the anticipated time frame of the noted above "extended period of adjustment."

   b. Please explain under what circumstances the Postal Service would reconsider its decision to use the 4-year sample period for estimating the variabilities.

7. Please *see* Attachment, filed under seal.

8. Please *see* Attachment, filed under seal.

By the Chairman.

Robert G. Taub